Toolkit for Maximizing the Impact of Opportunity Zones

Community leaders can take a few early steps to set the course for positive and transformative cycles of investment that ensure their communities benefit from the Opportunity Zone tax incentive. With visionary leadership, the incentive can be a big step forward for the inclusion of all Americans in municipal civic and economic life. Put together by leading nonprofits establishing norms for the Opportunity Zone market,[1] this document outlines emerging best practices for identifying, prioritizing, engaging around, and advancing such projects.

1. Start with a Vision or Prospectus

The first step is to develop a community plan and vision for the zone. It allows the mayor to tell a story that unifies stakeholders around a vision and markets the city to investors. This often entails developing an "investment prospectus." More guidance on this can be found on Accelerator for America's website.[2] A municipal prospectus alone will not attract investment. **But, done well a municipal prospectus, or vision, achieves four goals:**

1. It establishes what is possible for a municipality's Opportunity Zones.
2. It allows the community and its leaders to establish a common vision for the zone.
3. It tells a story that contextualizes economic and demographic data about the zone.
4. It signals to potential investors that community leaders are committed to using its Opportunity Zones to elevate projects and deals aligned with community priorities

2. Identify Zone-Specific Needs

This incentive should be leveraged to address a community need. Two broad categories community need exist: (1) the need to alleviate a problem, such as a lack of affordable housing; or (2) the need to create alternative pathways to prosperity, such as the new industry creation. Projects that address both types of need at once are the most transformative. Three steps are required to identify needs.

1. **Targeted data is necessary to gauge needs:** local officials should engage universities and state offices to retrieve such data. Opportunity360 from Enterprise Community Foundation is also an excellent Opportunity Zone-specific data tool.
2. **Convene stakeholders to establish zone priorities:** Community leaders should bring local parties together to get on the same page about what they want for the zone. This process should make clear that *now* is the time to act and should focus on projects with demonstrated community buy-in.
3. **Focus on avoiding unintended consequences:** City Hall should guide stakeholders to projects that carry low displacement risks while addressing needs. This often is vacant or brownfield land.

3. Identify Community Resources

The community may need to make tangible contributions to ensure socially impactful projects are also economically viable. Since investors generally seek risk adjusted returns, to make projects more investible communities can deploy resources to increase returns or decrease risk. We identify three categories of community resources that can be mobilized to credibly boost a project's risk adjusted return.

1. **In-kind Contributions:** These are the most traditional local development tools City Hall uses.
    - Public finance contributions: these include bonds, TIF districts, and other tax incentives that can be layered on state and federal incentives in zones.

---

[1] Input for this toolkit was gathered from Accelerator for America and the Economic Innovation group.
[2] http://www.acceleratorforamerica.com/OZGuide

- Public land contributions: municipalities often have tracts of publicly owned land that can be contributed at below market-rate to decrease investment risk, increase affordability, and provide investors with assurance that city hall will be a partner.

2. **Regulatory Steps:** City Hall should creatively use the permitting process and zoning code to support projects that address social needs, as well as to curb any potential program abuses.
    - Permit approval process: The Opportunity Zone statute outlines strict timelines for funds investing in projects. This makes time a critical resource for investors and developers. City Hall should think creatively about how to fast-track certain projects. This is also a key place to consider adding measurement requirements for local projects in zones.
    - Zoning code: City Hall and local groups can approach Zoning Boards to apply for non-conforming use exemptions for projects that solves community needs. Similarly, they can lobby for additions to the code – such as inclusionary zoning requirements – for areas that are quickly growing or at risk of gentrification.

3. **The Local Asset Base:** Community leaders usually have a good understanding of the local asset base. It is the most important to project success. Some groups can contribute financial resources, others can contribute some degree of certainty about continued community demand for the project.
    - Local capital base: Early evidence suggests that mobilized a locally committed capital base may the critical factor that determines the success of Opportunity Zones. Evaluating and engaging this base of local capital is vital, it comes in two forms.
        1. Local investors: Some communities are home to investors, high or moderate net worth individuals, or family offices who care deeply about the future of their city.
        2. Engaged local philanthropy: local foundations or philanthropists deeply committed to solving some problem can be engaged around mission-oriented projects.
    - Anchor institutions: The presence of universities, hospitals, or other large institutional anchors in, or adjacent to, a zone provides investors with an assurance of market stability and innovative potential. If they are engaged through partnerships or initiatives, this is even better.
    - Mission-oriented developer: A number of developers operating on local and national stages focus on solving social problems as well as constructing buildings. They can be engaged through real estate project RFPs.
    - Business support organizations: Chambers of commerce, incubators/co-working spaces and other organizations that provide support services for businesses are excellent channels to educate and support businesses seeking capital.
    - Engaged community group: Active and widely-trusted organizations in a zone should be brought in early in developing the project to ensure it has local buy-in, and therefore lower risk.
    - A talented spokesperson: Telling a good story that weaves in the project can help build attention to the project's mission and the need that it's addressing. In communities that can afford it, hiring a dedicated Opportunity Zone staff member in city hall to field inquiries, develop strategy, and provide informed communication to a breadth of stakeholders can ensure that a municipality leverages this resource.

4. Select Priority Projects from the intersection of Needs & Resources

Good projects for this incentive occur at the intersection of social need and market traction. City Hall should lead communities strategically use local resources for maximum social impact. To do so, city hall should compare zone-specific needs and resources to find projects at the intersection of each.

Discern your strategy: As communities have begun identifying their Opportunity Zone strategy, three general perspectives on Opportunity Zone capital have emerged. You should identify which bucket you fit within:

- *Seeking capital to counter disinvestment:* these are rural and rust belt cities hoping to attract *any* capital to jump-start the local economy.
- *Seeking targeted capital:* these are communities trying to attract capital for a specific purpose (e.g. a highly segregated town looking to improve quality of life in the poorer area).
- *Trying to contain capital:* These are hot markets looking to minimize displacement.

Despite overall differences in strategy, in most communities, the specific approach is similar: *identify projects and deals that can seek capital to benefit the community.* Even in communities that are trying to contain capital, the Opportunity Zone provides minimal tools to prevent certain types of investment. Instead, communities should try to elevate the community-oriented projects that will benefit residents and work to ensure that those are the ones attracting investor attention. On the other hand, in communities seeking broad access to capital, the easiest way to accomplish this is to identify specific projects and use them to target investors, though perhaps at a wide scale than communities that fall in the middle bucket.

Triangulate priority projects: There are three key dimensions that discern good projects that have emerged. Projects should be determined by where they fit with regard to each of these dimensions. The dimensions are qualitative and are a guide to think about local context more than they are a prescriptive device. The categories are:

- *Local resources leveraged:* how much are you willing to put on the table, and for what outcomes?
- *Community need addressed:* how deeply, or broadly, does this project address articulated community needs?
- *Suitable for private capital:* where does this project fit within investors' risk preferences? What does the return look like?

Project fit with respect to these categories should be gauged based on local considerations (resources you want to expend, political constraints, regionally specific industries). A schematic is included on page 8 to help map out projects along these three categories. Projects that should become community priorities fit in the "sweet spot"

Project checklist: Once you've identified your strategy and triangulated projects, you should ask the following questions and used the checklist on page 9 to help refine priority projects that are within the sweet spot.

- What are the different combinations of need-asset "sweet spots"?
- How far along in the planning pipeline are projects in these sweet spots?
- How much city-owned or anchor-owned land is in the zones surrounding "sweet spot" projects?
- How do "sweet spot" projects fit within the mission orientation of the local capital base?

- Do these projects create the groundwork for entrepreneurship?[3]
- Where do "sweet spot" projects fit within the mayor's vision and the city's strategic plan?

PART II: FROM PROSPECTUS TO PROJECTS

The topics below will be covered in further depth during the second part of this workshop series. They're included below to show where we are headed.

5. Develop Financing Models to Refine Priorities

Once one or two projects are prioritized, City Hall should develop financing models to understand the specific magnitude of resources they'll need to deploy to make projects attractive to investors. Based on a set of market assumptions, the model will determine the project's expected net operating expenses, revenues, and rate of return. Performing a sensitivity analysis on assumptions will allow municipal staff to deliberately leverage local resources.

1. **Building the business model:** Economic development staff should acquire quality data on the local real-estate market, especially the market capitalization rate and construction costs to generate assumptions. The model should be developed in coordination with a nonprofit or consultant with expertise. Occasionally a feasibility study is necessary to get a better idea of local market conditions. This model will inform the project pro forma.

2. **Develop a platform for managing priority projects:** As the municipality advances projects, there will likely be multiple projects across zones. The local government should help investors to easily see and sort projects by attribute, geography, and financial characteristics. A digital platform like this can serve the dual function of allowing the city to track the progress of priority projects. We recommend that the city work with a third-party provider, like The Opportunity Exchange, to establish this platform.[4]

6. Progress Priority Projects into Deals

The process of moving priority projects to deals differs only slightly from the normal development process in that it requires credible engagement with equity investors as well as developers.

1. **Formalize a Pro Forma & Deal Sheet:** Project champions should formalize a deal sheet, which is a one-page public-facing document that summarizes key financial facts about *one project.* It's backed up by a formalized financial pro forma. Leaders should prepare to qualify these documents and defend their assumptions.

   The Deal Sheet should include:
   - A rendering of the project
   - A short description of the offering, describing community buy-in, the developer, key surroundings, and other important information
   - A section focusing on investment highlights (number of units, land values, and a summary of local contributions)
   - A section on the project's total debt capital, equity requirements, and potential social impact
   - A final section focusing on notes on the local market.

[3] Although the Treasury Department's rules still leave ambiguities around operating business investment, certain projects like coworking spaces, public transit, and workforce housing create the groundwork for business growth.
[4] https://www.theopportunityexchange.com/

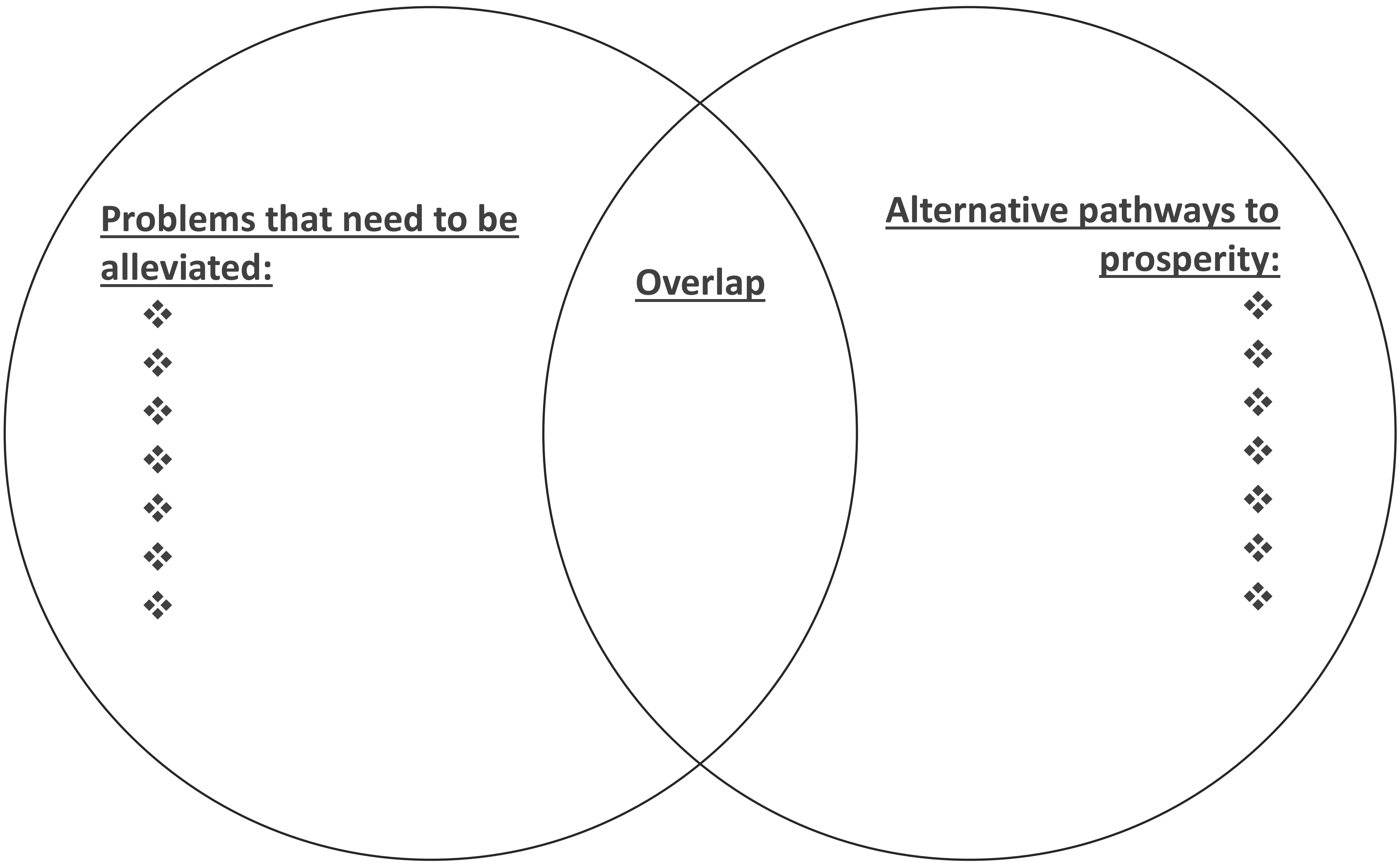
2. **Progress an RFP:** The actual deal occurs through the RFP process. An RFP should go out to two audiences: developers and investors. The investor RFP should include a term sheet along with any city specifications on the investment alongside normal RFP contents.
    - Create list of relevant parties to invite to an RFP: City Hall should decide if they want to target local, national, and/or mission aligned developers and investors.
    - Develop and Circulate the RFPs: The municipality should include the normal specifications for the RFP in both the developer and investor RFPs. *After the document is developed and circulated, the city should host a session for interested investors and developers and field questions.*
    - Evaluate and approve: After the deadline for responding to the RFP has passed, City Hall should evaluate responses following the process specified in the RFP. It is recommended that the city employ or contract someone with investment experience to evaluate the investor RFP responses.

Questions? Or looking for assistance on this process? If you're a community or municipal leader and want to learn more, email colin@governanceproject.org, or find us at www.governanceproject.org.

Toolkit Appendix: Decision-Making Templates for Community Workshop

This appendix has a series of tools to help municipal leaders orient their thinking around Opportunity Zone community development. These tools will be relevant for different stages of the community workshop.

I. **Identify needs:** Community leaders should run through this template and bring it back to their communities to better understand the specific needs they face – and where they overlap.

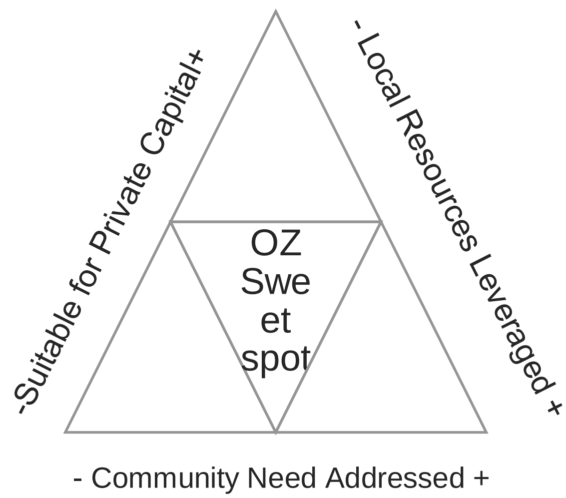


II. **Identifying Community Resources:** use this table to record and document the specific resources in each category for your community.

Category	Description	
Anchor Institutions	*Higher education, hospitals, churches, natural resources, existing industry, etc.*	
Government-Controlled Assets	*City-owned land or buildings*	
Key Partnerships	*Engaged non-profits/community groups, chambers of commerce, business support services local champions etc.*	
Human Capital	*Demographic trends, workforce strengths*	
Regulatory Resources	*Zoning codes, planning approval processes, additional incentives, etc.*	
Sources of Capital	*Investors, philanthropies, family offices, government sources of funding, etc.*	
Success Stories	*Positive examples of economic growth and success*	
Other		

THE GOVERNANCE PROJECT

III. **Prioritizing Projects (strategy, triangulate, scorecard)**
Projects that fit the "Sweet Spot" should become community priorities.



Scorecard: once you have identified the location of priority projects and situated them relative to your overall local strategy you should score them. We've included an example scorecard with critical categories that you should be thinking about as you evaluate priority projects.

Economic fundamentals	Need-resource overlap
☐ Does the city control the key resources? (e.g., land, building, incubator)	☐ Where in the planning process is this project? (conceptual vs. permitted)
☐ Is there strong community desire?	☐ Has a project champion been identified?
☐ Is it likely to appreciate over 10 years?	☐ How does the investment story fit within the mission orientation of investors?
☐ Is there a clear exit from investment?	☐ How do these investments fit within the municipality's broader development strategy?
☐ Who is the project a strategic investment for?	☐ Which community members benefit from the project? And which will pay the most?

THE GOVERNANCE PROJECT

IV. Story Template

What is innovative:

What is traditional:

What is next:

Narrative type (circle one, then describe): historical / geographical / both

V. Prospectus Action Plan

Action	Due Date
❑ Finalize community story	
❑ Compile data to support story	
❑ Lay out information in clear, compelling way (can be document or website)	
❑ Identify Priority Projects	
❑ Share with community for feedback	
❑ Complete draft prospectus	

VI. **Project Action Plan**

Identify key stakeholders and how and when you are going to get them involved in the project

Who Do I Need to Get Involved?			When am I Going To Contact Them?
Project Leaders	Developers / Entrepreneurs		
	Community leaders		
Policy Makers	City/County Officials		
	State policymakers		
Potential Investors	Local investors		
	Local family offices		
	State and national philanthropies		
Service Providers	Accountants		
	Lawyers		
	Consultants/researchers		